

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE FILING ADJUSTMENT FOR) CASE NO.
DELAPLAIN DISPOSAL COMPANY) 2010-00349

COMMISSION STAFF'S SECOND INFORMATION REQUEST
TO DELAPLAIN DISPOSAL COMPANY

Delaplain Disposal Company ("Delaplain"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due within 20 days of the date of this information request. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Delaplain shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Delaplain

fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to Delaplain’s Response to the Commission Staff’s First Information Request, Item 1. In its 2009 general ledger, Delaplain recorded payments of \$46,081 to Ray Consultants, an associated company.

a. For each invoice listed in Table 1 below, provide a schedule that describes in detail the services that are being provided to Delaplain by Ray Consultants, LLC. Provide copies of all the invoices listed in Table 1.

| Table 1: Ray Consultants, LLC Invoices | | |
|--|----------------------|--------------|
| Number | Vendor | Amount |
| 50 | Ray Consultants, LLC | \$ 3,338.60 |
| 51 | Ray Consultants, LLC | 3,204.25 |
| 52 | Ray Consultants, LLC | 3,436.80 |
| 53 | Ray Consultants, LLC | 4,130.01 |
| 54 | Ray Consultants, LLC | 4,530.43 |
| 55 | Ray Consultants, LLC | 3,446.46 |
| 56 | Ray Consultants, LLC | 3,180.34 |
| 57 | Ray Consultants, LLC | 3,891.34 |
| 58 | Ray Consultants, LLC | 3,092.62 |
| 59 | Ray Consultants, LLC | 4,456.85 |
| 60 | Ray Consultants, LLC | 3,392.93 |
| 61 | Ray Consultants, LLC | 3,477.84 |
| 03-258A | Ray Consultants, LLC | 2,502.87 |
| Total | | \$ 46,081.34 |

b. For each Ray Consultant, LLC employee that has billable hours to Delaplain, provide (1) the number of billable hours; (2) the employee’s hourly wage rate;

(3) the employee's billable hourly rate; and (3) list any factors used by Ray Consultants, LLC to develop the employee billable hourly rates (e.g., payroll tax factor, employee benefit factor, overhead factor, profit factor).

c. For each factor listed in the response to 1(b), provide a detailed explanation of how it was calculated.

d. Given that the transactions between Delaplain and Ray Consultant, LLC are considered "less-than-arms-length," provide documentation to show that each amount billed by Ray Consultant, LLC to Delaplain is reasonable.

2. Refer to Delaplain's Response to the Commission Staff's First Information Request, Item 1. Delaplain recorded payments of \$46,550 to Delaplain's President, Elbert Ray.

a. For each item listed in Table 2 below, provide a schedule that describes in detail the services that are being provided to Delaplain by Mr. Ray. Provide copies of all invoices related to the listed expenditures.

| Number | Vendor | Amount |
|----------------|-----------------------|----------|
| January 2009 | Elbert C. Ray | \$ 3,500 |
| February 2009 | Elbert C. Ray | \$ 3,675 |
| March 2009 | Elbert C. Ray | \$ 3,325 |
| April 2009 | Elbert C. Ray | \$ 5,600 |
| May 2009 | Elbert C. Ray | \$ 4,375 |
| June 2009 | Elbert C. Ray | \$ 4,375 |
| July 2009 | Elbert C. Ray | \$ 3,500 |
| August 2009 | Elbert C. Ray | \$ 3,675 |
| September 2009 | Elbert C. Ray | \$ 3,675 |
| October 2009 | Elbert C. Ray | \$ 3,675 |
| 03-258A | Elbert C. Ray {owner} | \$ 7,175 |
| Total | | \$46,550 |

b. Given that the transactions between Delaplain and Mr. Ray are considered "less-than-arms-length," provide documentation to show that each amount billed by Mr. Ray to Delaplain is reasonable.

3. Refer to Delaplain's Response to the Commission Staff's First Information Request, Item 1. Delaplain recorded payments of \$4,250 to Delaplain's Sectary/Treasurer, Steve Singleton.

a. Provide a detailed description of the services that are being provided to Delaplain by Mr. Singleton. Provide a copy of the related invoice.

b. Given that the transaction between Delaplain and Mr. Singleton is considered "less-than-arms-length," provide documentation to show that the amount billed by Mr. Singleton to Delaplain is reasonable.

4. Refer to Delaplain's Response to the Commission Staff's First Information Request, Item 1. Delaplain recorded payments of \$43,958 to Lilly Wastewater Management, Inc.

a. For each item listed in Table 3 below, provide a schedule that describes in detail the services that are being provided to Delaplain by Lilly Wastewater Management, Inc. Provide copies of all invoices related to the listed expenditures.

| Number | Vendor | Amount |
|--------|----------------------------------|-------------|
| 45 | Lilly Wastewater Management Inc. | \$ 3,244.76 |
| 46 | Lilly Wastewater Management Inc. | 2,574.57 |
| 47 | Lilly Wastewater Management Inc. | 2,753.09 |
| 48 | Lilly Wastewater Management Inc. | 3,003.17 |
| 49 | Lilly Wastewater Management Inc. | 3,534.22 |
| 50 | Lilly Wastewater Management Inc. | 3,062.71 |
| 51 | Lilly Wastewater Management Inc. | 3,082.33 |
| 52 | Lilly Wastewater Management Inc. | 3,063.66 |
| 53 | Lilly Wastewater Management Inc. | 3,037.09 |
| 54 | Lilly Wastewater Management Inc. | 4,160.13 |

| | | |
|---------|----------------------------------|--------------|
| 55 | Lilly Wastewater Management Inc. | 3,039.90 |
| 56 | Lilly Wastewater Management Inc. | 3,431.27 |
| 03-258A | Lilly Wastewater Management Inc. | 3,008.20 |
| 53-P | Lilly Wastewater Management Inc. | 2,963.82 |
| Total | | \$ 43,958.92 |

b. Provide a copy of the contract between Lilly Wastewater Management, Inc. and Delaplain.

5. Refer to Delaplain's Response to the Commission Staff's First Information Request, Item 1. Delaplain reports insurance expense of \$5,105 for the test period.

a. Provide copies of the 2009 insurance invoices to document the amount reported in the test period.

b. Provide copies of Delaplain's 2010 insurance invoices.

6. Refer to Delaplain's Response to the Commission Staff's First Information Request, Item 1. Delaplain reports effluent testing expense of \$19,125 for the test period.

a. Provide a copy of Delaplain's current KPDES permit.

b. Provide a detailed description of the KPDES testing requirements.

7. Refer to the Application, Exhibit 1, Reference Notes, Adjustment C, Repairs and Maintenance Expense, and Delaplain's Response to the Commission Staff's First Information Request, Items 5(a) and 5(b).

a. Item 5(a) requested Delaplain to provide separate schedules for calendar years 2007, 2008, and 2009 that list each item recorded in Account 714, Maintenance of Treatment and Disposal Plant. However, the totals for the calendar year 2007 and 2008 schedules do not agree with the amounts that are reported in the annual reports for those years. Provide a detailed reconciliation for each discrepancy listed in Table 4.

| Table 4: Expense Discrepancies | | | |
|--------------------------------|-----------------------|----------------|---------------|
| Calendar Year | Response to Item 5(a) | Annual Reports | Discrepancies |
| 2007 | \$ 62,658 | \$ 65,058 | \$ 2,400 |
| 2008 | \$ 61,402 | \$ 61,864 | \$ 462 |

b. Delaplain proposes to increase its repairs and maintenance expense by \$8,645 to a pro forma level of \$59,139 to reflect a three-year average of Account No. 714, Maintenance of Treatment and Disposal Plant. In calculating the proposed three-year average, did Delaplain adjust the calculation to exclude any capital expenditures (e.g., manhole rehabilitation, check valve replacements) or nonrecurring expenditures (e.g., pumping lift station) that were incorrectly expensed in 2007 or 2008?

(1) If the response to Item 7(b) is yes, provide a schedule for each year listing the capital and nonrecurring expenditures that were removed.

(2) If the response to Item 7(b) is no, explain why those expenditures should not be removed prior to the calculation of the three-year average.

8. Refer to Delaplain's Response to the Commission Staff's First Information Request, Item 5(c).

a. Given that utilities tend to record capital or nonrecurring expenditures as a maintenance expense, explain why a three-year average of Delaplain's repairs and maintenance expense account is reflective of the on-going or future maintenance expense levels.

b. Most companies will fund capital costs with the appropriate type of financing (e.g., capital improvements with a ten-year depreciation life are financed with a ten-year loan). Explain why Delaplain has not attempted to finance its "postponed" plant repairs rather than to fund those repairs with current rates.

9. Refer to the Application, Exhibit 1, Reference Notes, Adjustment D, Utilities Expense, and Delaplain's Response to the Commission Staff's First Information Request, Item 6.

a. Delaplain states that Kentucky Utilities ("KU") was granted an increase in its electricity rates of 8.1 percent in July 2010.¹ Explain in detail how Delaplain determined that KU received an 8.1 percent increase in its electricity rates.

b. Provide a detailed calculation of the proposed \$3,561 increase in the test-period utility expense.

c. Provide copies of the KU invoices for the period of November 1, 2008 through April 30, 2010.

d. Calculate the impact the July 30, 2010 increase in KU's electricity rates will have on Delaplain's utility expense by applying the actual rates awarded to KU on July 30, 2010 to the kWh that were used by Delaplain in the test period. Provide copies of all workpapers, assumptions, and calculations used by Delaplain in developing its response.

10. Refer to Delaplain's Response to the Commission Staff's First Information Request, Item 7(d). Identify the technical consultant referenced in the response and provide a copy of the recommendation.

11. Refer to Delaplain's Response to the Commission Staff's First Information Request, Item 7(e).

a. In its response, Delaplain states that "we proposed depreciation periods of 3-7 years in order to generate cash flow necessary to fund the proposed projects

¹ Case No. 2009-00548, Application of Kentucky Utilities Company for an Adjustment of Base Rates (Ky. PSC Jul. 30, 2010).

in a timely manner.” Explain why Delaplain’s current customer base should be required to totally fund capital projects that will provide a benefit to future customers.

b. Given that, on July 31, 2009, Delaplain was able to obtain an \$89,637 promissory note from the PNC Bank,² explain why it “lacks ready access to capital markets for funding.”

c. Describe in detail Delaplain’s attempts to obtain financing to fund the capital projects that have been postponed.

d. The purpose of depreciation is to allow a utility to recover the cost of the asset over its estimated useful life. Explain, in detail, why Delaplain’s cash flow should impact the determination of the useful lives for the completed and proposed capital projects.

12. In its response to Item 9(b) of the Commission Staff’s First Information Request, Delaplain states that the financing was obtained to retire a balloon payment that came due in July 2009 and the “balloon payment related to funding that had been used for qualified capital construction purposes in prior years.”

a. Provide a copy of the loan agreement for the original PNC Bank loan.

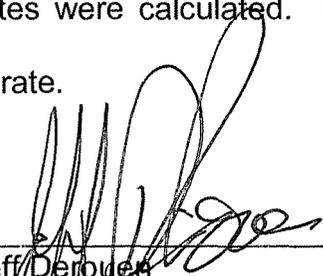
b. Provide a complete and detailed description of the use of the borrowed funds from the original PNC Bank loan.

13. Provide a schedule detailing all expenditures relating to the rate case application that have been incurred as of the date of this information request. Provide in

² Application, Exhibit 4, Documentation of Debt.

the schedule the nature and amounts of all charges along with a copy of vendor invoices. The invoices should contain detailed descriptions of the services, the amount of time billed for each service, and the hourly billing rate. Identify the account number and title to which each amount was charged.

14. Explain, in detail, how the proposed rates were calculated. Include all calculations that were used in arriving at the proposed rate.



Jeff Derouen
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Public Service Commission
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DATED: JAN 18 2011

cc: Parties of Record

Elbert C Ray
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